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The high poverty rate (13.8 percent) among Nebraska's children is cause for concern, since there is strong evidence that poverty can hinder development and adversely affect children's ability to become productive adults. It is commonly assumed that poor children live in families where parents could work but do not. Yet in Nebraska, of poor families with children and an able-bodied head, 82 percent had one or more workers. The problem is more severe in rural areas: 70 percent of Nebraska's working poor live in rural areas. The apparent contradiction of poverty despite work among Nebraska families with children is the result of both economic trends (increases in low-wage and part-time work) and government policies related to minimum wage, income tax credits, and availability of food stamps. This report analyzes strategies that can boost the incomes of low-wage workers. Nebraska should take steps to increase access to well-paying jobs by fostering improved educational attainment and job creation. Nebraska could establish a state earned-income tax credit based on the federal credit, and it could increase the state minimum wage above the federal requirement. Together, these actions would establish a public-private partnership to make work pay enough to eliminate poverty for a substantial number of Nebraska's working families with children. (TD)

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Nebraska's Families:

Poverty Despite Work

ED 382 432

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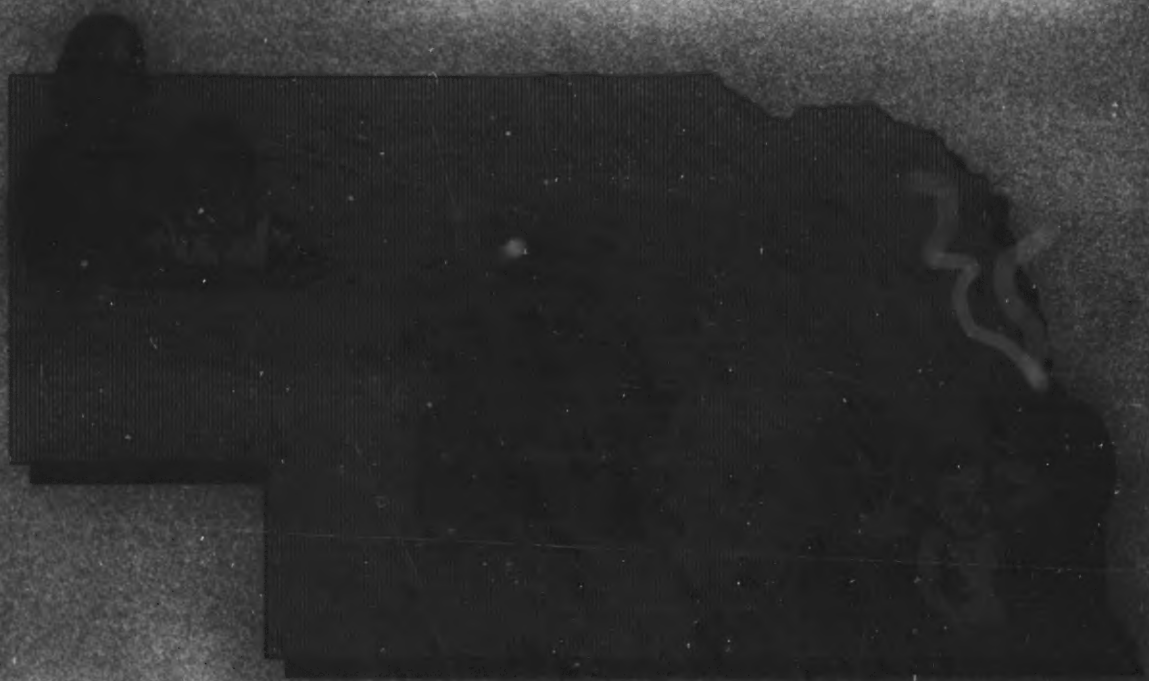

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Nebraska's Families:
Poverty Despite Work

Edward B. Lazere

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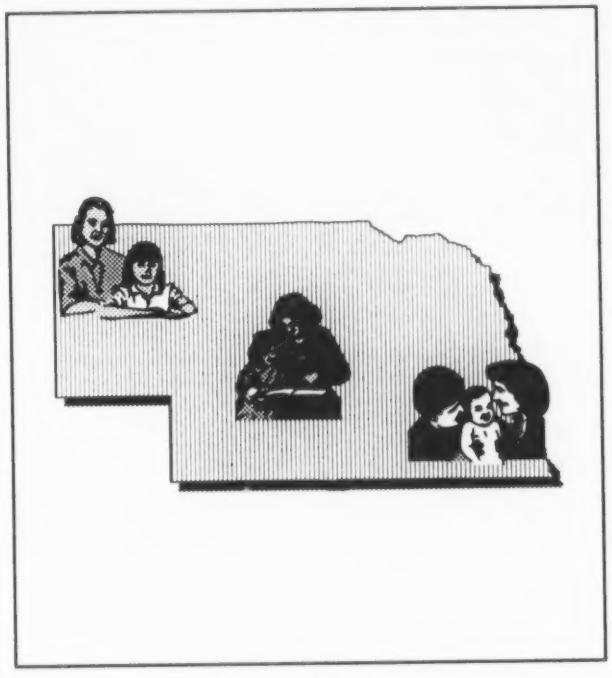

Center on Budget and Policy Priorities
Washington, D.C.

Voices for Children in Nebraska
Omaha, NE

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Voices for Children in Nebraska is a statewide independent child research and advocacy organization based in Omaha. Its mission is to define and promote public policies that give all children in Nebraska the opportunity to develop their maximum potential.

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Contents

Acknowledgments v

Executive Summary vii

I. Introduction 1

II. The Majority of Poor Families in Nebraska Work 5

III. The Faces of the Working Poor in Nebraska 11

IV. Economic Changes, Government Policy Contribute to Working Poverty in Nebraska 15

V. Implications for Nebraska's Working Poor and for Welfare Reform 23

VI. Conclusion 35

Tables and Figures

Figure 1: Work Experience among Poor Families with Children In Nebraska, 1989 5

Figure 2: Sources of Income for Poor Families with Children in Nebraska, 1989 7

Figure 3: The Work Experience of Poor Family Heads in Nebraska and the United States, 1989 9

Figure 4: The Faces of Working Poor Families with Children in Nebraska, 1990 13

Figure 5: Average Earnings and Job Growth by Industry in Nebraska 17

Figure 6: Earnings from Full-Time Work in Selected Low-Wage Jobs In Nebraska 18

Figure 7: Average Weekly Wages of Nebraska Workers by Region, 1992 18

Figure 8: Full-Time Minimum Wage Earnings as a Percent of the Three-Person Poverty Line 20

Figure 9: The Poverty Gap for Nebraska Families with a Full-Time Minimum Wage Worker, 1996 21

Figure 10: The Poverty Gap for Nebraska Families with a Full-Time Minimum Wage Worker, 1996 22

Figure 11: Low Earnings Among Family Heads Working Full-Time in Nebraska, by Gender and Education Level 25

Figure 12: Educational Attainment of ADC Adults and All Family Heads in Nebraska 25

Figure 13: The Federal Earned Income Credit in Tax Year 1996 27

Table I: Minimum Wage Earnings and the Poverty Line, 1994 20

Table II: Earned Income Credit Benefit Levels for Families at Different Income Levels, 1996 28

Table III: State Minimum Wage Levels Higher than the Federal Requirement, 1994 29

Table IV: Effects of Various "Make Work Pay" Options on a Family of Four with One Full-Time Minimum Wage Worker, 1996 31

Table V: Effects of Various "Make Work Pay" Options on a Family of Three with Two Children with One Full-Time Minimum Wage Worker, 1996 32

Table VI: Effect of "Make Work Pay" Proposal on ADC Family of Three with a Parent Working Half-Time at the Minimum Wage, 1996 33

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The authors are solely responsible for the contents of the report.

Executive Summary

Children stand out as one of the poorest groups of Nebraska's residents. Nearly one of seven Nebraska children under age 18 — some 13.8 percent — lived in families with incomes below the federal poverty line in 1989. The poverty rate for children under age six — 17.3 percent — was even higher. The high poverty rate among Nebraska's children is cause for concern, since there is strong evidence that poverty can hinder the cognitive and physical development of children and adversely affect their ability to become productive adults.

The majority of poor children live in working families. It is common to assume that poor children live in families where the parents could work but do not. Yet this does not fit the profile of most poor families in Nebraska. The majority of Nebraska's poor children live in working families. Earnings from work are the primary source of income among Nebraska's poor families with children.

The working poor often are missing from policy debates. Although the working poor are a majority of Nebraska's poor families with children, they are often invisible in discussions about how to reduce child poverty. This report begins to tell the story of Nebraska's working poor families with children. It is based on an analysis of data from the 1990 census, the most recent comprehensive source with which to examine Nebraska's working poor.

Poverty Persists Despite Work Effort

- **The majority of Nebraska's poor families with children work.** According to the 1990 census, there were 20,100 Nebraska families with

children in which the head was not elderly or disabled that fell below the federal poverty line. Some 16,500 — or 82 percent — of these poor families had one or more workers. Only 3,600 — or 18 percent — of these families did not have a parent who worked part or all of the year. The average working poor family head worked 37 weeks, or more than eight months out of the year. Working two-parent families that were poor worked a combined average of 60 weeks.

- **Many poor families were supported by full-time work.** Some 8,650 poor families — 43 percent of all Nebraska's poor families with children — had one or more full-time, year-round workers.

- **Earnings represent the major source of income for Nebraska's poor families with children**. Earnings from work constituted 70 percent of the income of poor families with children in Nebraska, while only 13 percent of the income of these families came from public assistance, primarily Aid to Dependent Children (ADC).

- **Working poverty is more common in Nebraska than in the U.S. as a whole**. Some 80 percent of poor family heads in Nebraska worked all or part of the year in 1989, compared with 61 percent of poor family heads nationwide. (These figures differ from earlier figures, which refer to the work effort of both heads and spouses.) One-third of poor families with children in Nebraska were headed by a person who worked full-time, year-round. This is much higher than the proportion of poor families nationwide — 20 percent — in which the family head worked full-time.

- **Working poor families in Nebraska mirror a broad cross-section of the state's population.** Like Nebraska families as a whole, most working poor families are white, headed by a married couple, and live in rural areas of the state. A majority of working poor families have a parent of prime working age — 25 years or older — with at least a high school education.

Economic Shifts Have Led to Growth in Low-Wage Work

- **Low-wage work increased in Nebraska in the 1980s**. Between 1979 and 1989, the number of parents working full-time with "low earnings" as defined by the Census Bureau — those earning less than $13,800 in 1994 dollars — *increased by more than one-third.*

- **Job growth has been concentrated in industries with low average earnings.** Service employment increased by 62 percent between 1980 and 1993, the largest rate of employment growth for any industry in Nebraska. Retail trade employment grew by 22 percent while manufacturing employment grew just seven percent.

- **Many families are unable to find full-time work.** According to the U.S. Bureau of Labor Statistics, one of seven Nebraska workers *at all income levels* who worked part-time in 1992 did so because they couldn't find full-time work. The proportion of *poor* Nebraska parents who involuntarily worked part-time is likely to be somewhat higher than the overall proportion.

- **Rural areas have been especially affected.** The average family head working full-time in nonmetropolitan, or rural areas in Nebraska earned 20 percent less than the average family head in an urban area. While employment grew 25 percent in the Omaha area and 23 percent in the Lincoln area between 1980 and 1993, it rose just five percent in the state's rural areas.

Federal Policies Have Contributed to Poverty Among Working Families

- **The value of the minimum wage has declined dramatically.** In 1994, full-time work at the minimum wage pays only 75 percent of the federal poverty line for a family of three and only 59 percent of the poverty line for a family of four. The value of the minimum wage has fallen because it was frozen from January 1981 through March 1990, during which period the cost of living rose 48 percent.

- **Expansions of the federal earned income tax credit have only partially offset the decline in the value of the minimum wage and the shift toward lower-paying work.** The earned income credit (EIC), a federal tax credit for low- and moderate-income workers, is designed to offset social security taxes, supplement the earnings of low- and moderate-income families, and promote work as an alternative to welfare. As a part of the federal efforts to "make-work pay," the EIC was expanded in 1986, 1990 and 1993. Yet in 1996, when these expansions are fully phased-in, the income of a full-time minimum wage worker with two children will still be $865 below the poverty line. The income of a four-person family will fall $4,402 below the poverty line.

- **Even if they receive food stamps, many working families will remain in poverty.** Nearly two-thirds of working poor families nationwide do not receive food stamp benefits, because many do not meet the program's outdated asset limits and because many eligible families do not apply. Among families that do receive food stamps, a family of three with a full-time minimum wage worker will have an above-poverty income in 1996. But the total income of a family of four — including food stamps — will still fall nearly $1,000 below the poverty line, and larger families will fall even further below poverty.

The Persistence of Poverty Despite Work Has Implications for Welfare Reform

The stated goal of welfare reform legislation introduced in 1994 is to "provide...the support needed to move from public assistance to economic self-sufficiency." Even if welfare-to-work efforts are successful in overcoming the barriers to full-time employment many ADC recipients face — including limited job opportunities, skill deficiencies, health problems, and difficulties in finding affordable quality child care and arranging transportation — simply moving families from welfare to work will not guarantee that families can achieve economic self-sufficiency.

- **Experience from Nebraska's Job Support program shows that many welfare recipients who find jobs will join the ranks of the working poor.** The average hourly wage of ADC recipients in this program who gained private sector jobs was $4.93 in 1993. This earnings level was too low to lift a family of four with a full-time worker out of poverty, even counting the EIC and the value of food stamps.

Child Poverty Can Be Reduced by Reducing the Ranks of the Working Poor

Because most poor families with children are supported by one or more workers, the high poverty rate among children in Nebraska is unlikely to decline significantly without additional efforts to assist low-wage working families. Efforts to boost the incomes of low-wage workers would help bridge the gap between minimum wage earnings and the poverty line and would further promote the rewards of work over welfare. These actions are likely to have the most success in reducing both child poverty and welfare dependency.

Nebraska policymakers should take steps to increase access to well-paying jobs by fostering improved educational attainment and job creation. Families in which the parents have limited educations are those most likely to be poor. At the same time, the lack of good-paying jobs keeps many skilled workers and their families

in poverty. As a long-term solution, policymakers should work to create higher-paying jobs, especially in the state's rural areas, and to improve the educational levels of all Nebraska children.

Improving educational levels is also important to the success of welfare reform. Since many adults in ADC families have limited educations, providing access to high school and post-secondary education is a critical component of enabling welfare recipients to become economically self-sufficient. Some 31 percent of adults in Nebraska ADC families have less than a high school education, compared with just nine percent of all Nebraska family heads.

More immediately, Nebraska policymakers should bolster the income of working poor families by establishing a refundable state earned income credit and increasing the state minimum wage. Because low-wage work is unlikely to disappear entirely — now or in the foreseeable future — other strategies to increase the incomes of low-wage working parents take on critical importance.

State Earned Income Credits

In recent years, several states have enacted state earned income credits to build on the strengths of the federal EIC. More than 74,000 Nebraska families received a federal EIC in tax year 1992.

- **The EIC acts as a work incentive because only people who work can claim it.** In 1996, when recent EIC expansions will be fully phased in, families with two or more children will qualify for a credit of 40 cents on every dollar earned up to about $8,900 — resulting in a maximum credit of $3,560. The maximum credit for families with one child will be $2,156 in 1996. Because the federal EIC is a *refundable* tax credit, families receive a refund if the credit amount is larger than their tax bill.

- **The federal EIC is targeted on low- and moderate-income workers.** Eligibility phases out gradually as incomes rise above a certain level. In 1996, the EIC benefit will begin to diminish for families with incomes above $11,200. Families with two children with incomes up to $28,500 will qualify for some EIC in 1996.

- **Seven states — Iowa, Maryland, Minnesota, New York, Rhode Island, Vermont, and Wisconsin — have state earned income credits.** In addition to helping bridge the gap between minimum wage earnings and the poverty line, a state EIC can be used to offset the regressive effects of state sales and excise taxes. These taxes take a larger share of income of lower-income households than of those with higher incomes.

- **Nebraska can create an EIC based on the federal credit.** Like six of the seven states that currently have EICs, Nebraska can use the federal eligibility criteria to determine who can receive state EIC benefits and express a state EIC as a specified percentage of the federal EIC. For example a family of four with two or three children and one minimum wage worker will qualify for a federal EIC of $3,536 in 1996. A state EIC set at 25 percent of the federal credit would provide such a family with a state EIC benefit of $884.

Minimum Wage

Since an earned income credit alone may not be sufficient to bring working families above the poverty line, increasing the Nebraska minimum wage above the federal standard of $4.25 would also help working families escape poverty. Eight states and the District of Columbia have minimum wage levels above the federal requirement of $4.25 an hour. Six of these states have a minimum wage of $4.75 or higher.

- **A minimum wage increase would boost the incomes of low-wage workers.** A 25 cent increase in the minimum wage would boost the earnings of a full-time minimum wage worker by $480 per year, after payroll taxes.

- **A modest minimum wage increase is unlikely to lower employment.** The principal argument against raising the minimum wage is that it would price many workers out of the job market. Recent research suggests, however, that the effects are likely to be limited. Several studies of the most recent increases in the federal minimum wage found that the increases did not reduce employment.

Recommendation: A Public-Private Partnership to "Make Work Pay"

Combining a state EIC with an increased minimum wage would lead to a shared burden between the public and private sectors. The following is the effect of a state EIC set at 15 percent of the federal credit and a minimum wage of $4.75 an hour on the incomes of families with one full-time minimum wage worker. These levels are well within the range of other states with state EICs or with a minimum wage above the federal level.

- A state EIC set at 15 percent of the federal credit and a minimum wage of $4.75 an hour would lift a family of four with one minimum wage worker

$150 above the poverty line in 1996, if the family also received food stamps.

- For a family of four with one full-time minimum wage worker *not receiving food stamps*, a minimum wage of $4.75 per hour combined with a state EIC set at 15 percent of the federal credit would provide an additional $1,518 in annual income. This would eliminate more than one-third of the $4,400 by which such a family would fall below the poverty line without any state action.

- The income of a full-time working single-parent with two children would be raised to five percent — or $650 — above the poverty line in 1996 by a combined minimum wage of $4.75 and a state EIC set at 15 percent of the federal credit.

- A family of three consisting of a married couple and one child, which would receive a smaller EIC than a family with two or more children, will fall more than $2,200 below the poverty line in 1996 if supported by one full-time minimum wage worker. The combination of a state EIC set at 15 percent of the federal credit and a minimum wage of $4.75 an hour would boost the income of such a family by nearly $1,300, erasing more than half of the amount by which such a family would otherwise fall below the poverty line.

Conclusion

This analysis has identified and focused on low earnings as a major and growing cause of poverty among Nebraska's families with children. In order to increase the rewards of work over welfare and to reduce child poverty in Nebraska, avenues must be found to increase the incomes of parents working for low wages.

This report analyzes two strategies — in use in other states — that can boost the incomes of low-wage workers. Nebraska could establish a state earned income credit based on the federal credit, and it could increase the state minimum wage above the federal requirement. Together, these actions would establish a public-private partnership to make work pay enough to lift out of poverty a substantial number of Nebraska's working families with children.

I. Introduction

Children stand out as one of the poorest groups of Nebraska residents. Nearly one of seven Nebraska children under age 18 — some 13.8 percent — lived in families with incomes below the federal poverty line in 1989. The poverty rate was even higher for young children. Some 17.3 percent of children under age six lived in poverty. By contrast, 10.1 percent of Nebraska residents 18 and older were poor that year.

The high poverty rate among Nebraska's children is cause for concern, since there is strong evidence that poverty can hinder the development of children and adversely affect their ability to become productive adults. Important research from the University of Michigan, for example, has found children under age five who have experienced at least one year of poverty have significantly lower IQ scores than children in families that were never poor; the researchers also found that the longer young children live in poverty, the greater the lag in IQ scores. The authors conclude that there is "little doubt that child poverty...is scarring the development of our nation's children."[1] Other research shows that poor children are more likely to score poorly on indicators of cognitive development, to be short for their age, and to be underweight than children in higher-income families.[2]

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[1] Greg Duncan, Jeanne Brooks-Gunn, and Pamela Kato Klebanov, "Economic Deprivation and Early Childhood Development," *Child Development* (65), 1993. The relationship between poverty and lower IQ scores remained even after controlling for differences such as maternal education and family structure.

[2] Jane Miller and Sanders Korenman, "Poverty, Nutritional Status, Growth, and Cognitive Development of Children in the United States," Princeton University's Office of Population Research Working Paper Series, June 1993.

It is common to assume that poor children live in families where the parents could work but do not. Yet this does not fit the profile of most poor families with children in Nebraska as detailed in the 1990 census. Of the poor families with children with an able-bodied head in Nebraska — those that could be expected to work — some 82 percent had one or more workers. Some 43 percent of such poor families had at least one full-time, year-round worker. These are Nebraska's working poor. Although the working poor are a majority of the poor families with children in Nebraska, they are often invisible in discussions about ways to end child poverty.

The apparent contradiction of poverty despite work among Nebraska families with children is the result of both economic trends and government policies. A parent with steady work no longer guarantees that a family can escape poverty; children may grow up poor even with a parent working full-time all year. Economic shifts have led to substantial increases in low-wage work, the result both of growth in lower-paying jobs such as services and of wage erosion. Moreover, the value of the minimum wage declined sharply in the 1980s — when it was frozen for eight years — so that full-time work at the minimum wage today leaves many families below the federal poverty line. Significant expansions of the federal earned income tax credit have boosted the incomes of working poor families, but they have not made up fully for the decline in the value of the minimum wage or the economic shifts toward lower-paying work.

Working poor families with children in Nebraska mirror a broad cross-section of the state's population. Like Nebraska families as a whole, most working poor families include a parent with at least a high school education who is of prime working age. A majority of working poor families are white, headed by a married couple, and live in rural areas of the state.

It is important to note that the distinction between the working poor and the nonworking poor is not always clear-cut. Over the course of several years, many parents of poor families experience both periods of employment and periods of nonemployment. Some recipients of Aid to Dependent Children, the primary cash assistance program for poor Nebraska families with children, also work for part of the year or work part-time.

Without additional efforts to assist low-wage working families, the high poverty rate among Nebraska's children — most of whom are in families with one or more workers — is unlikely to decline significantly. The persistence of poverty among families with children in Nebraska despite the substantial work efforts of their parents also has profound implications for welfare reform in Nebraska. Simply moving families from welfare to work will not guarantee that families escape poverty and achieve self-sufficiency. Even if they are able to find full-time work, it is likely that many welfare recipients will simply join the ranks of the working poor, and their children will still suffer from the effects of poverty.

There are long-term, indirect steps that can be taken to help working families and promote work over welfare. These include improving the educational attainment of all Nebraska children, providing educational opportunities for adult ADC recipients, and promoting high-wage job creation. Given the large number of low-wage jobs in the Nebraska economy, however, many working families will continue to be poor even if long-term efforts at educational improvement and job creation are successful. Nebraska policymakers also can act directly to reward the work effort of working poor families and to help ensure that families with working parents do not fall into poverty. Establishing a state earned income credit and increasing the state minimum wage represent the most effective ways of meeting this goal, while sharing the burden between the public and private sectors.

This report begins to tell the story of Nebraska's working poor families with children. It is based on an analysis of data from the 1990 census, the only recent source of comprehensive information on Nebraska's working poor. (For more information on the data cited in this analysis, see the box on page 8.) The first section of the report explores the work experience among poor Nebraska families. The second section identifies several of the reasons that many families remain poor despite working. The third section presents the makeup of Nebraska's working poor families. The report concludes with policy recommendations for helping working poor families in Nebraska escape poverty.

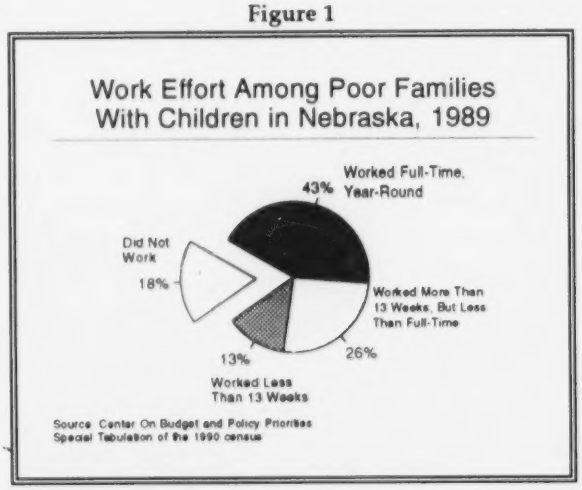
II. The Majority of Poor Families in Nebraska Work

The serious problem of poverty among children in Nebraska occurs despite the fact that nearly all poor families with able-bodied parents have one or more workers. Many of these families have a worker employed full-time year-round, and the major source of income for poor families as a whole is earnings from work. On average, only a small fraction of the income of poor families comes from public assistance.

- Some 16,500 — or 82 percent — of the 20,100 poor Nebraska families with children in which the head was not elderly or disabled had one or more members who worked for all or part of the year in 1989.[3]

- The average working poor family head worked eight months, or 37 weeks, out of the year. Working two-

Figure 1



[3] In this report, the family "head" refers to the person designated in the census as the "householder." The householder is the person in whose name the home is owned or rented, or in the case of joint ownership, the person whose name is listed first. Among married-couple households, the householder can be either the wife or the husband.

Deborah Norton
Nebraska's Working Poor

Deborah Norton (not her real name) is a divorced mother of three children living in Omaha. The 31-year old child care worker, who also is taking classes at a community college, worked full-time in 1993 and earned $8,400. Her 14 year-old son contributed $500 from a part-time job. Deborah's family did not receive food stamps because her employer would not let her take the several hours off during the work day she would need to spend at the Department of Social Services office. She received a federal earned income credit of $1,511, but the family's total income of $10,411 placed them more than $4,300 below the federal poverty threshold of $14,764 for a family of four. Even if the Norton family had received food stamps, it would have fallen $1,300 below the poverty line.

This family was drawn from responses to the 1990 census. Its income has been adjusted for inflation to equal 1993 dollars. See box on page 8 for more information.

The Norton's 1993 Income	
Earnings	$8,900
EIC	1,511
Total Income	10,411
Poverty Line	$14,764

parent families that were poor worked a combined average of 60 weeks, more than the equivalent of a full-year job.

- Some 8,650 poor families with children — 43 percent of all poor families with children — had one or more *full-time, year-round* workers. This includes 1,500 families in which two parents worked the equivalent of one full-time, year-round job although neither parent alone worked full-time and year-round. Some 39,000 Nebraskans lived in families with children that were poor despite being supported by full-time, year-round work.[4]

- Only 18 percent of the poor Nebraska families in which the head was not elderly or disabled — some 3,600 families — had no working members. Sixty percent of the poor families without a worker were single-parents with children under age six, who are likely to face great difficulty balancing work and family responsibilities. And in 30 percent of the poor families without a worker, the family head was looking for work but unable to find a job.

[4] This refers to families in which the head or spouse worked at least 50 weeks *and* at least 35 hours per week, which is the Census definition of full-time year-round work. In this report, families also are considered to have full-time year-round workers if the combined work of the head and spouse exceeds 1750 hours, the equivalent of 50 weeks at 35 hours per week.

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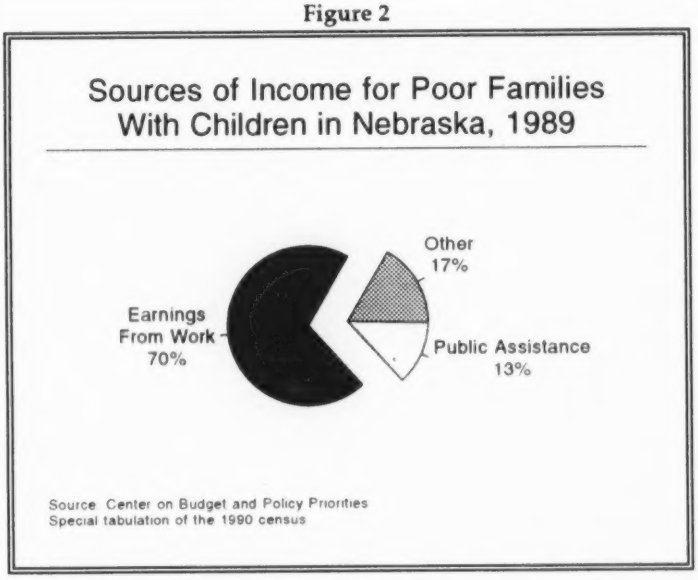
Figure 2


Sources of Income for Poor Families With Children in Nebraska, 1989
Other 17%
Earnings From Work 70%
Public Assistance 13%
Source: Center on Budget and Policy Priorities Special tabulation of the 1990 census

Similarly, earnings from work constitute the vast majority — 70 percent — of the income received by all poor Nebraska families with children. Only 13 percent of the income of poor families in which the head is not elderly or disabled comes from public assistance — primarily Aid to Dependent Children, the main cash assistance program for poor families with children, or Supplemental Security Income, the federal cash assistance program for low-income elderly or disabled individuals or families.[5]

Working Poverty More Common in Nebraska Than in the U.S. as a Whole

Poor families in Nebraska are much more likely to have a working head than poor families elsewhere in the nation. This means that low earnings are a greater factor behind poverty among Nebraska families with children than among poor households nationally.

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[5] The remaining income comes from social security, income from household members other than the head and spouse, interest and dividends, retirement, and disability payments.

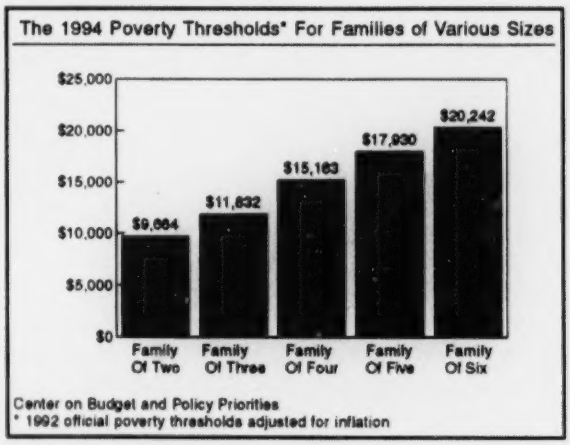
It is likely that most of the public assistance income received by these families comes from ADC. Few of the families in this analysis, which includes only families in which the head is not elderly or disabled, are likely to be eligible for SSI. Nevertheless, some of these families may have received SSI based on the disability of a spouse or one or more children.

The Data Used in This Report

This analysis is based on data from the 1990 census, the only recent source of comprehensive information on the working poor.* It is restricted to Nebraska households with related children in which the head is under age 65 and not disabled, so as to reflect the work experience of households in which the parents could be expected to work under normal circumstances.

The descriptions of the four families in this report also were drawn from the 1990 census. Their names and other details of their lives have been added, but the basic information on family income, size, and structure, and on the age and education of the head is from the census. The receipt among these families of some government benefits not included in the census, particularly food stamps and the earned income credit, was assumed to be consistent with national participation rates among eligible families. Similarly, the occupations of the family heads were chosen based on the head's earnings to be consistent with data from the Nebraska Department of Labor's *1993 Nebraska Survey of Hourly Wage Rates.*

The analysis examines households whose total income, both earned and unearned, falls below the federal poverty threshold, which varies by family size and is adjusted annually for inflation by the Census Bureau. Earned income includes income from wages and salaries, farm employment, and self-employment. Unearned income includes public assistance (ADC or SSI), Social Security, investment earnings, and retirement income. The Census Bureau's income measure does not count the value of in-kind benefits, such as food stamps, or the effect of taxes on disposable income. The 1994 poverty threshold for a family of four is roughly $15,200.



The federal poverty threshold is used here because it is the most commonly accepted measure of low-income status. The poverty line has been criticized for being out of date, however, and many analysts believe it should be raised. When the poverty line was created in 1966, it was set at three times the cost of a minimal food budget because the average U.S. family then spent roughly one-third of their income on food. The poverty line has been adjusted every year only for inflation, which means that the underlying methodology for determining the poverty line has not changed. Since 1966, however, rent burdens have risen faster for poor families than for others, and expenditures for items such as child care have grown substantially, while food has fallen to just one-fifth of the average family budget. This suggests the purchasing power of the poverty line has declined.

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* More recent sources of information on the working poor, such as the Census Bureau's Current Population Survey, do not have sufficient sample sizes in smaller states such as Nebraska to allow detailed analysis.

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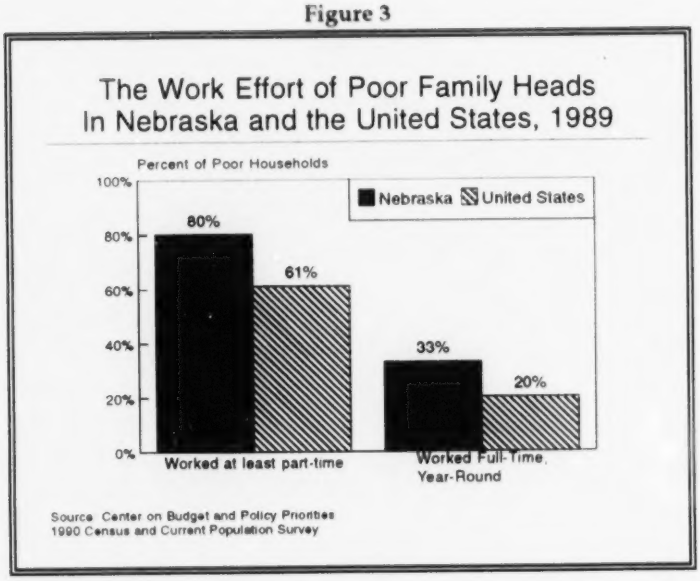
Figure 3



- Some 80 percent of poor family heads in Nebraska who were not elderly or disabled worked all or part of the year, compared with 61 percent of all poor family heads nationwide.

- One-third of poor families in Nebraska had a head who worked full-time and year-round. This was much higher than the proportion of poor families nationwide — 20 percent — with a full-time working head.[6]

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[6] The figures for Nebraska and the U.S. are roughly — but not entirely — comparable. The figures for the U.S. as a whole exclude all retired workers, while the figures for Nebraska exclude all family heads that are over age 65. Since some family heads could be retired under age 65 or working beyond age 65, the figures are not strictly comparable. Also, the figures for the U.S. as a whole exclude all family heads who described themselves as "ill or disabled," while the Nebraska figures exclude all family heads with a disability that limited the amount of work they could do.

In addition, these figures refer to the work experience of family heads only, while the figures presented earlier in this chapter refer to the work experience of family heads and, in the case of married couples, their spouses. The data restricted to family heads are used here because published national data on the work experience of non-elderly and non-disabled poor families refer only to the work experience of family heads.

III. The Faces of the Working Poor in Nebraska

Working poor families in Nebraska mirror a broad cross-section of the state's population. Like Nebraska families as a whole, most working poor families have a parent with at least a high school education who is of prime working age. A majority of working poor families with children are white, headed by a married couple, and live in rural areas of the state.[7] (See Figure 4.)

- Some 86 percent of working poor families with children in Nebraska were white, while nine percent were black, four percent were Hispanic, and the remainder were Native American or of another racial minority.[8]

- More than three-fifths — 61 percent — of Nebraska's working poor families were headed by a married couple. Some 35 percent were headed by a single woman, and four percent were headed by a single male. Half of the married-couple households with incomes below the poverty line had two workers, which suggests that even the presence of two earners does not assure that families with children can escape poverty.

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[7] These figures include families in which the total number of hours worked by the household head and spouse was 520 or greater. This is the equivalent of one calendar quarter of full-time work or a half-year of work at 20 hours per week. This figure was chosen to include all families with a clear connection to the job market.

[8] White refers here to non-Hispanic whites.

Bob and Jane Kramer
Nebraska's Working Poor

Bob and Jane Kramer (not their real names) live with their two children in Beatrice. Bob, age 30, works full-time as a security guard for a bank. He took the job a year ago after being laid off from a better-paying job at a small wood products factory. Jane stays at home to take care of their young children. Bob earned $11,300 in 1993, and the family qualified for the federal earned income credit, giving them a $1,511 tax refund. They were disqualified from receiving food stamps because of the value of the 1990 car the family bought when times were better. Their total income, $12,811, fell nearly $2,000 below the 1993 poverty line for a family of four — $14,764.

This family was drawn from responses to the 1990 census. Its income has been adjusted for inflation to equal 1993 dollars. See box on page 8 for more information.

The Kramer's 1993 Income	
Earnings	$11,300
EIC	1,511
Total Income	12,811
Poverty Line	$14,764
Shortfall	1,953

- Some 70 percent of working poor families in Nebraska lived in nonmetropolitan, or rural, areas of the state. The remaining 30 percent lived in either the Omaha or Lincoln metro areas.[9]

- Most working poor family heads have a high school education or better. Some 41 percent of working poor family heads had a high school diploma, and 39 percent of the working poor family heads had at least some post-secondary education. Just one in five working poor families had a head with less than a high school education. A lack of skills may limit some workers to low-paying jobs, but the lack of higher-paying positions appears to keep other skilled workers in poverty.

- Most working poor families in Nebraska are headed by someone in their prime working years — age 25 or older. Just 12 percent of working poor families had a head under age 25.

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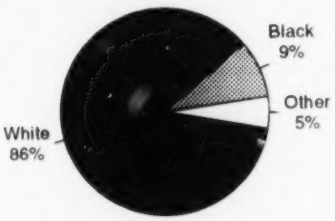
[9] Metropolitan areas are defined by the Census Bureau to include central cities and surrounding counties that are economically integrated with the central city. All counties that are not part of a metropolitan area are define as nonmetropolitan. The Omaha metro area includes Cass, Douglas, Sarpy, and Washington counties. The Lincoln metro area refers to Lancaster county.

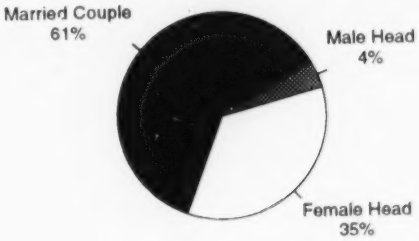
Figure 4

The Faces of Working Poor Families with Children in Nebraska, 1990

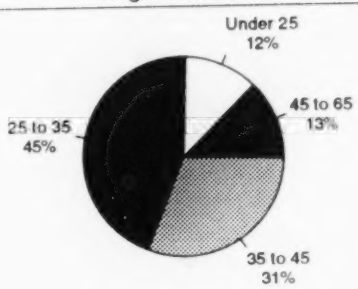
Race/Ethnicity of Head



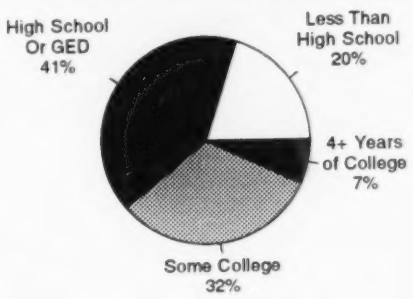
Family Type



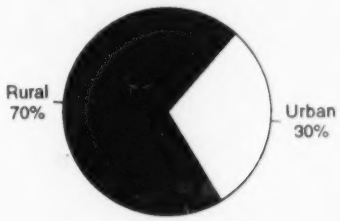
Age of Head



Education of Head



Rural/Urban Residence



IV. Economic Changes, Government Policy Contribute to Working Poverty in Nebraska

The contradiction of poverty despite work among Nebraska families with children largely reflects a shift towards low-wage work in the Nebraska economy in recent years. This shift was compounded by a dramatic drop in the value of the minimum wage in the 1980s, which now provides below-poverty earnings for most families with full-time workers. Substantial increases in the federal earned income tax credit, while important for many low-wage workers, have not made up entirely for these trends.

Economic Shifts Have Led To Growth in Low-Wage Work

A growing number of working parents in Nebraska have limited earnings, placing children at greater risk of living in poverty.

The number of full-time, year-round working parents in Nebraska with "low earnings" as defined by the Census Bureau — those earning less than $13,800 in 1994 dollars — rose from 24,360 in 1979 to 32,804 in 1989, *an increase of more than one-third.*[10]

The large and growing number of Nebraska parents with limited earnings partly reflects a shift in the economy away from higher-paying jobs in manufacturing and other industries to lower-paying jobs in services and retail sales, as well as wage erosion at the low end of the wage scale. Nationally, these trends have contributed to a

[10] The number of parents with low earnings represented 12 percent of all parents in 1979 and rose to 15 percent of all parents in 1989.

long-term stagnation in wages. Data from the U.S. Department of Labor indicate that after adjustment for inflation, average hourly wages paid to non-supervisory workers were lower in 1993 than in any year since 1964.

Tom and Julie Atkinson
Nebraska's Working Poor

Tom and Julie Atkinson (not their real names) live in Lincoln with their two-year old daughter. Tom, age 22, is working as a restaurant cook while looking for a better job. He would like to work full-time, but the restaurant only offers him 30 hours per week due to slow business. Julie, also 22, worked last year as a salesperson in a department store. She was laid off from her 30 hour-per-week job for two months of the year. Despite having two workers and receiving the federal earned income credit, the family's gross income of $10,894 fell $627 below the poverty line for a family of three — $11,521. They did not apply for food stamps because they thought that working families were not eligible.

This family was drawn from responses to the 1990 census. Its income has been adjusted for inflation to equal 1993 dollars. See box on page 8 for more information.

The Atkinson's 1993 Income	
Earnings	$9,460
EIC	1,434
Total Income	10,894
Poverty Line	$11,521
Shortfall	627

While similar data on earnings in Nebraska are unavailable, it is clear that job growth in Nebraska has been concentrated in recent years in industries with low average earnings, while employment has increased the least in industries with relatively high average pay. (See Figure 5.) For example:

- Service employment in Nebraska increased 62 percent between 1980 and 1993, which was the largest rate of employment growth for any industry in the state. In 1993, the average non-supervisory service job paid $287 a week in Nebraska. The weekly earnings from the average service job exceeded the poverty line for a family of four by just $3 per week.

- The estimated average weekly pay for Nebraskans working in non-supervisory jobs in retail trade, the industry with the second fastest rate of employment growth since 1980, was

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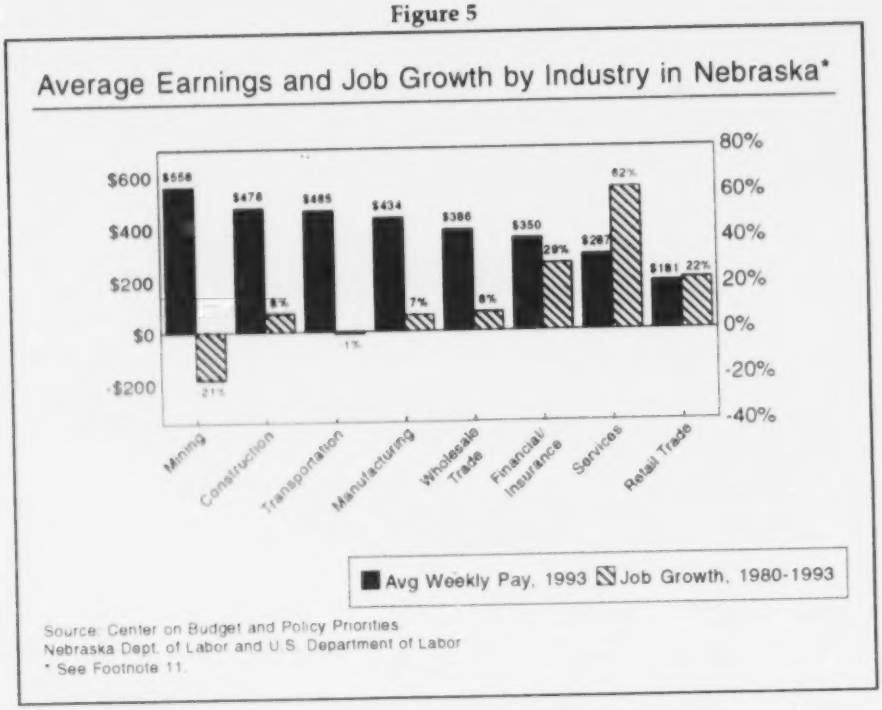
Figure 5



just $181 in 1993. Year-round work at this level yields an income nearly $5,300 below the poverty line for a family of four.[11]

- By contrast, manufacturing employment rose just seven percent during this period. The average production job in manufacturing paid $434 per week in Nebraska in 1993, or 50 percent more than the average service job.

Production workers in manufacturing have higher average weekly salaries because they have higher hourly earnings than service or retail workers, but also because they work more hours each week. The average manufacturing employee in Nebraska worked 41.5 hours per week in 1993, while the average service employee worked 31.8 hours, and the average retail sales employee worked 28.8 hours. It is important to note, however, that the average hourly pay for many service and retail

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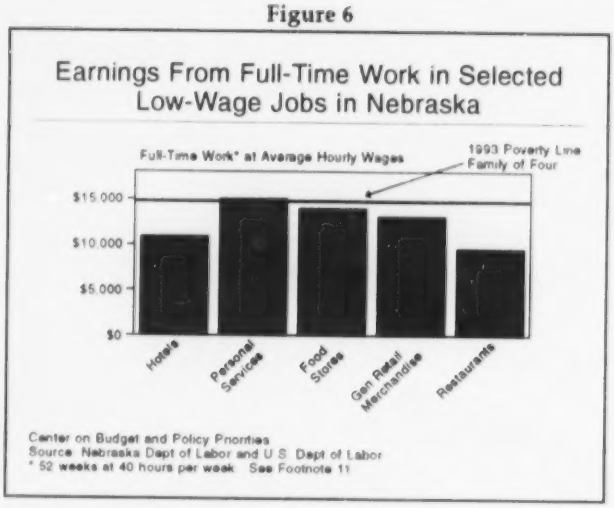
[11] The figures on employment growth for all industries and average pay for manufacturing and service jobs come from the Nebraska Department of Labor's Current Employment Statistics. These data show that Nebraska manufacturing wages average 89 percent of national manufacturing wages, while Nebraska service wages are 83 percent of service wages nationwide. The average wage in other Nebraska industries are assumed to be 86 percent of the national figures from the U.S. Department of Labor, because comparable data for Nebraska are unavailable.

sales jobs would have provided less than a poverty-level income for a family of four even if the worker had been employed full-time. (See Figure 6.)[12]

Figure 6

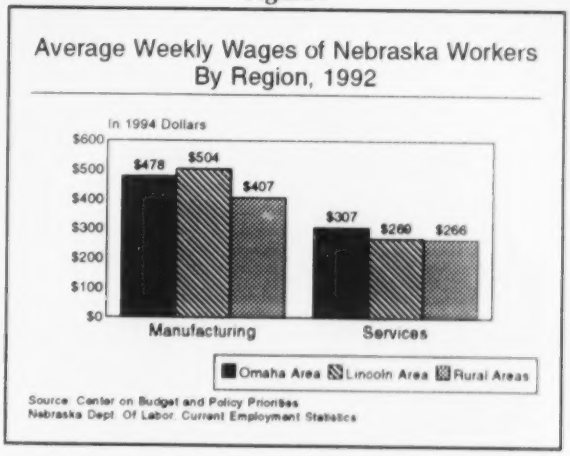

Earnings From Full-Time Work in Selected Low-Wage Jobs in Nebraska
Full-Time Work* at Average Hourly Wages
1993 Poverty Line Family of Four
$15,000
$10,000
$5,000
$0
Hotels
Personal Services
Food Stores
Gen Retail Merchandise
Restaurants
Center on Budget and Policy Priorities
Source: Nebraska Dept of Labor and U.S. Dept of Labor
* 52 weeks at 40 hours per week. See Footnote 11

The high incidence of working poverty in Nebraska also reflects the fact that a number of poor families are unable to find full-time work. According to the U.S. Bureau of Labor Statistics, one of seven Nebraska workers *at all income levels* who worked part-time in 1992 did so because they could not find full-time work. It is likely that the proportion of *poor* Nebraska families working part-time involuntarily is much higher than the overall proportion.[13]

Rural Areas Especially Affected by Economic Shifts

For many working poor families, the lack of good-paying job opportunities, rather than limited education or job skills, is a major cause of their poverty. This is especially true in the state's nonmetropolitan, or rural areas, where 70 percent of working poor families in Nebraska live.

Figure 7



- The average rural family head working full-time earned 20 percent less than the average family

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[12] These figures refer to production workers in manufacturing and non-supervisory workers in all other industries.

The lower average weekly hours of work for service and retail employees is likely to reflect both workers who choose part-time work, such as students or spouses seeking to supplement family earnings, and workers who are unable to obtain full-time work.

[13] United States Department of Labor, Bureau of Labor Statistics, *Geographic Profile of Employment and Unemployment: 1992*, July 1993, Table 19.

Many Working Families Live Close to Poverty

This report focuses primarily on families living below the federal poverty line despite working. Yet there are thousands of Nebraska families with children whose incomes fall modestly above the poverty line, and the overwhelming majority of these families have one or more full-time, year-round workers. The problems associated with low wages and limited job opportunities thus are not limited to households with incomes below the federal poverty line.

- In addition to the 20,100 poor families with incomes below the poverty line, 20,400 Nebraska families with children had income between the poverty line and 150 percent of the poverty line. Some 85 percent of the families in this latter group had one or more full-time, year-round workers.

- An additional 25,400 Nebraska families with children had income between 150 percent and 200 percent of the federal poverty line. Some 94 percent of these families had one or more full-time year-round workers.

head in an urban area who worked full-time. Earnings are lower in rural areas than in urban areas even for workers at the same educational level.

- The average weekly wages for manufacturing and service employees in Nebraska's rural areas are lower than wages in the Omaha and Lincoln areas. (See Figure 7.)

- Employment grew 25 percent in the Omaha area and 23 percent in the Lincoln area between 1980 and 1993, but just five percent in the state's rural areas.[14]

The Role of Federal Policy

There is a solid consensus among policymakers at the national level that the nation should do more to assist the working poor, and both liberals and conservatives have supported legislation to "make work pay." Nevertheless, federal policy changes with respect to the minimum wage have contributed to the high level of working poverty in Nebraska and throughout the U.S, and these changes have been only partially offset by recent expansions of the earned income credit.

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[14] Census data show that from 1980 to 1990, the rural population declined six percent and the urban population rose eight percent.

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The Declining Value of the Minimum Wage

Full-time, year-round work at the minimum wage — currently set at $4.25 an hour — pays only 75 percent of a poverty line income for a family of three in 1994 leaving such a family $3,000 below the poverty line on a yearly basis. For a family of four, full-time minimum wage pays just 59 percent — or $6,300 less than — the poverty line.

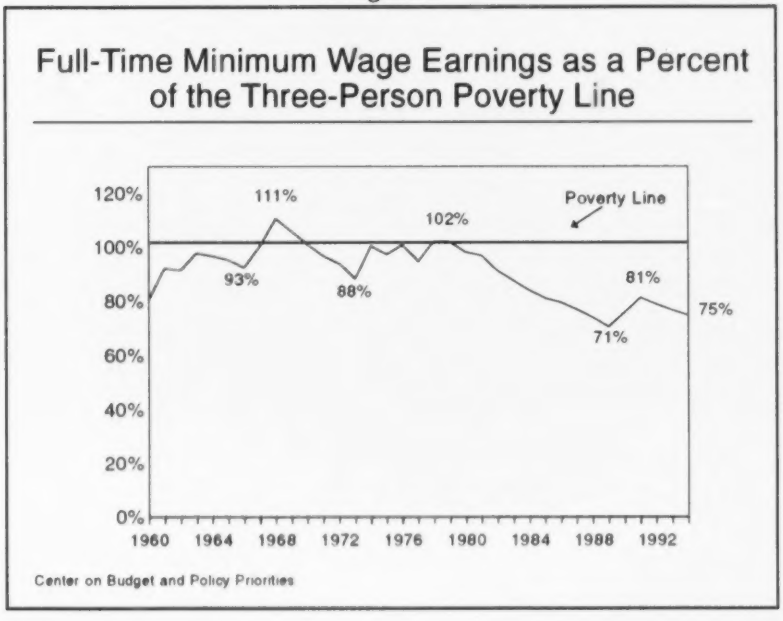
Table I
Minimum Wage Earnings and the Poverty Line, 1994

	Family Of Three	Family Of Four
Minimum Wage[a]	$8,840	$8,840
1994 Poverty Line[b]	11,832	15,163
Gap	-2,992	-6,323
Minimum Wage As Percent of Poverty Line	74.7%	58.3%

[a] 52 weeks at 40 hours/week
[b] 1992 poverty line adjusted for inflation to equal 1994 dollars.

The low level of the current minimum wage stands in sharp contrast to its value in the 1960s and 1970s, when in most years the earnings from full-time year-round work at the minimum wage lifted a family of three above the poverty line. The value of the minimum wage has fallen because it was frozen from January 1981 through March 1990, during which period the cost of living rose 48 percent. The minimum wage was increased in 1990 and 1991 as a result of legislation enacted in 1989, but these increases compensated for less than half the ground lost to inflation during the 1980s.

Figure 8

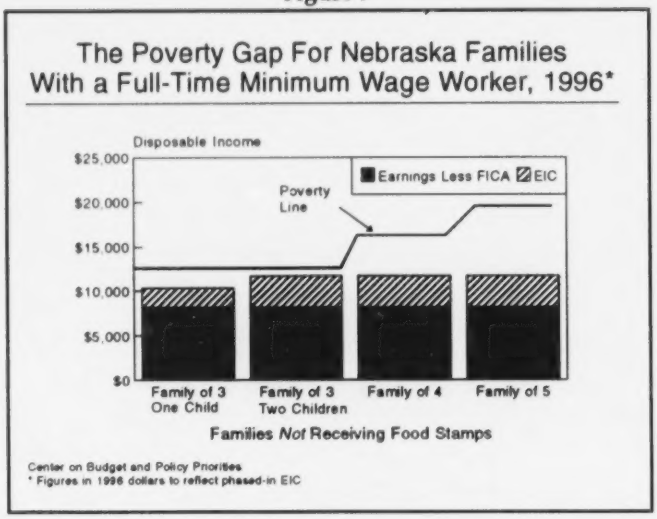


The Earned Income Credit

The Earned Income Credit (EIC) is a tax credit for low- and moderate-income working people. It is designed to offset the adverse effects of the Social Security payroll tax, to supplement the earnings of low- and moderate-income families, to strengthen incentives to work, and to promote work as a viable alternative to welfare.

As part of federal efforts to "make work pay," the EIC was expanded in 1986, 1990, and 1993. In 1996, when the 1993 expansions are fully phased in, families with more than one child and one full-time minimum wage worker will receive a credit of more than $3,500 a year. Yet even the expanded federal EIC is not large enough to guarantee that families that work will not be poor. In other words, the federal EIC does not fully compensate for the erosion in the purchasing power of the minimum wage since 1980, nor for the shift towards lower-paying work.[15]

Figure 9



- In 1996, when the federal EIC expansions are fully phased in, total cash income for a full-time minimum wage worker — earnings less payroll taxes plus the federal earned income credit — will leave a single-parent with two children $865 below the federal poverty line.

- The disposable income of a married couple with one full-time minimum wage worker and one child, which would receive a smaller EIC than families with two or more children, will fall $2,244 below the poverty line.

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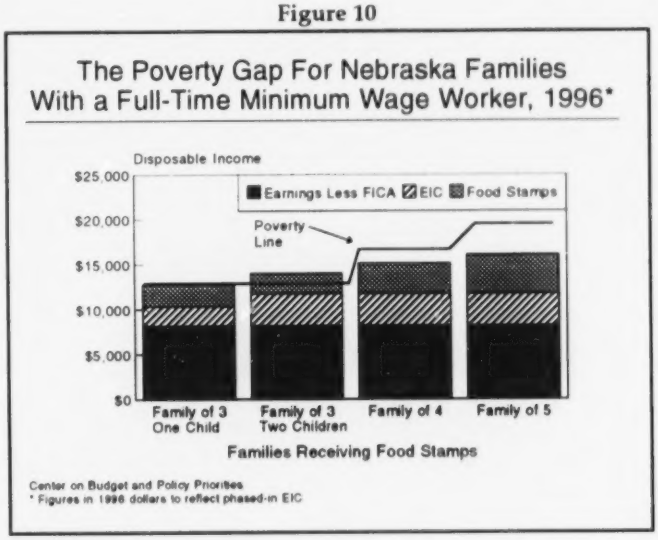
[15] The official federal poverty threshold is based on cash income, both earned and unearned, but does not include the value of in-kind benefits or the effects of taxes on disposable income. Nevertheless, many analysts agree that the payroll taxes and EIC benefits should be counted in addition to wages for the purpose of determining how far a family with a full-time minimum wage worker falls below the poverty line. Several other issues concerning how income should be defined, including whether food stamps should be counted as income, are more controversial. The following analysis provides figures that reflect cash income (wages, EIC, and payroll taxes), as well as figures that reflect cash income and food stamp benefits.

- A four-person family — the average size of poor families with children in Nebraska — will have income that falls $4,402 below the poverty line in 1996, while a family of five will fall more than $7,300 below the poverty line.

These estimates of the "poverty gap" for working poor families do not include the value of food stamps — which are nearly equivalent to cash — because nearly two-thirds of working poor families nationally do not receive food stamp benefits.[16] Many eligible working poor families do not apply for food stamps, and others are not eligible because they do not meet the program's somewhat outdated asset limits. For example, the limit on the value of a vehicle was not changed between 1977 and 1993 and has eroded significantly relative to inflation.[17]

Among families that do receive food stamps, a family of three with one or two children and a full-time worker at the minimum wage would have an income above the poverty line in 1996. *But families of four or larger would continue to fall below the poverty line even if they receive food stamps.* For example, the disposable income of a family of four with a full-time minimum wage worker would fall nearly $1,000 below the poverty line in 1996 if the family received food stamps along with the federal EIC.

Figure 10



[16] Census Bureau data indicate that 36 percent of poor households nationwide in which the head worked part or all of the year received food stamps in 1991.

[17] The asset limit for a vehicle was raised modestly in 1994, but the increase makes up only a fraction of the ground lost to inflation since 1977. The new asset limit, when fully phased in, will be more than 50 percent lower than in 1977, after adjusting for inflation.

V. Implications for Nebraska's Working Poor And for Welfare Reform

Because most poor families with children in Nebraska have one or more parents who work, with a substantial proportion working full-time year-round, the high poverty rate among Nebraska's children is unlikely to decline significantly without additional efforts to assist low-wage working families. As noted earlier, this is a cause for concern because of the evidence that poverty has long-term negative effects on the development of children.

Moreover, the persistence of poverty among families with children in Nebraska despite the substantial work efforts of their parents has profound implications for welfare reform in Nebraska. The stated goal of the welfare reform proposal introduced in 1994 is to make families economically self-sufficient, primarily by helping recipients make the transition from welfare to work. It is important to note that many ADC recipients already have recent work experience. These include families that go through periods of employment and nonemployment over the course of several years, using ADC as a temporary safety net during periods of difficulty such as the loss of a job or a serious illness. It also includes families with parents that work part-time while receiving ADC benefits. On the other hand, many of the ADC recipients without recent work experience are likely to have serious educational and job skills deficiencies, health problems, or difficulties arranging child care or transportation. These problems may make it difficult for some ADC recipients to find and maintain full-time work over the long-term.

Yet even if welfare-to-work efforts are successful in helping ADC recipients obtain full-time work, this will not guarantee that families escape poverty and achieve self-sufficiency. In fact, evidence from the state's current welfare-to work program

suggests that many welfare recipients who do find jobs will simply join the ranks of the working poor. The *average* wage of ADC recipients who gained private sector employment after participating in Nebraska's Job Support program was $4.93 in 1993. That wage level would not lift a family of four with a full-time worker out of poverty, even counting the earned income credit and the value of food stamps.

June Carter
Nebraska's Working Poor

June Carter (not her real name) is a divorced mother of four children living in McCook. The 31 year-old secretary has a high school education and took some college courses before her divorce. She worked four months in 1993, but lost her job when the neighbor that had been providing child care for her children moved out of state. She looked for other reliable, good quality child care but could not find any she could afford. After exhausting most of her savings and selling her car, she received food stamps. She later applied for and received Aid to Dependent Children. She also was eligible for a small earned income credit. Her total income in 1993 was $7,689, or $9,770 below the federal poverty line for a family of five.

This family was drawn from responses to the 1990 census. Its income has been adjusted for inflation to equal 1993 dollars. See box on page 8 for more information.

The Carter's 1993 Income	
Earnings	$3,500
ADC (3 mo.)	1,400
Food Stamps (6 mo.)	2,106
EIC	683
Total Income	7,689
Poverty Line	$17,459
Shortfall	9,770

There are steps that can be taken to increase access to well-paying jobs and to help ADC recipients make the transition to work and self-sufficiency. There also are more direct steps that Nebraska policymakers can take to help guarantee that families with working parents do not live in poverty.

Improving the Job Opportunities of Low-Wage Workers

The following policies can help increase the incomes of parents working near the bottom of the wage scale by enhancing the job opportunities available to them.

Education and Training: While most working poor family heads have a parent with at least a high school education, families in which the parents have a limited education are much more likely to be poor than families in which one or both parents have a more advanced education. This is especially true for female family heads, because women on average earn less than men of similar educational levels. Since earnings rise substantially with education, improving the educational achievement of all Nebraska children will help in the long-term to reduce the number of working poor families. (See Figure 11.)

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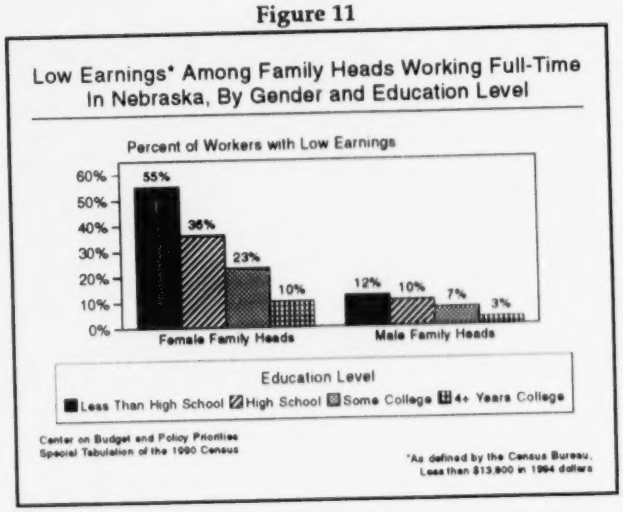
Improving educational levels is also important to helping ADC recipients become economically self-sufficient. ADC families in Nebraska are overwhelmingly headed by single women, many of whom have limited educations. Providing access to high school and post-secondary education, as well as to skills training, is a critical component of enabling welfare recipients to become financially self-sufficient.

Figure 11

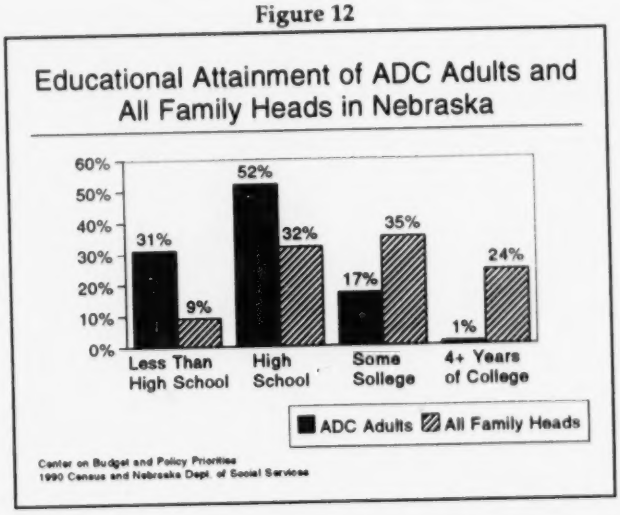


- Some 31 percent of adults in ADC families have less than a high school education, compared with just nine percent of all family heads in Nebraska.

- Less than one percent ADC adults have a college education or better, while 24 percent of all family heads have an advanced education. (See Figure 12.)

Job Creation: As noted earlier, the lack of well-paying job opportunities is an important factor behind working poverty in Nebraska. This is especially true for families in rural areas, where wages and job growth are lower compared with urban areas. Thus, efforts to promote high-wage job creation in the state are important to reducing working poverty in the long-run.

Figure 12



Efforts to Help Ensure That Working Families Escape Poverty

Given the large number of low-wage jobs in the Nebraska economy, many families nevertheless will continue to be working poor even if long-term efforts at educational improvement and job creation are successful. Nebraska policymakers can act to boost the incomes of working parents in low-wage jobs directly and help their

families escape poverty through creating a refundable state earned income credit or increasing the state minimum wage. Such efforts would help bridge the gap between full-time minimum wage earnings and the poverty line that remains even with an expanded federal EIC. These changes also would further promote the rewards of work over welfare, an important element of welfare reform.[18]

State Earned Income Credit

In recent years, several states have created their own EIC to build on the strengths of the federal EIC.

The federal earned income credit is a refundable tax credit for low- and moderate-income workers. It was created to offset the adverse effects of the Social Security payroll tax, to supplement the earnings of families with low-wage workers, and to promote the rewards of work over welfare. The federal EIC was expanded in 1986, 1990, and 1993. Some 74,000 Nebraska families received an EIC for tax year 1992.

The federal credit is administered through the income tax system. It is a *refundable* credit, which means that if the credit amount is larger than a family's tax bill, they receive a refund. For example, a family of four with earnings of $16,000 in 1994 would have $90 in income taxes withheld during the year and would also qualify for an earned income credit of $1,639. The family's EIC would pay back the $90 it paid in income taxes and provide an additional cash refund of $1,549.

The EIC acts as a work incentive because only people who work can claim it. For families with very low earnings, the credit increases as earnings rise. In 1996, when the most recent EIC expansions will be fully phased in, families with two or more children will qualify for a federal credit of 40 cents on every dollar earned up to about $8,900 — roughly the earnings of one full-time minimum wage worker employed all year. The maximum credit for families of two or more children at this income level will be $3,560.

The federal EIC credit amount phases out gradually for families with incomes above a certain level. In 1996, the EIC benefit will begin to diminish for families with incomes above $11,200. Families with two children with incomes up to $28,500 will qualify for some EIC in 1996. (See Figure 13.)

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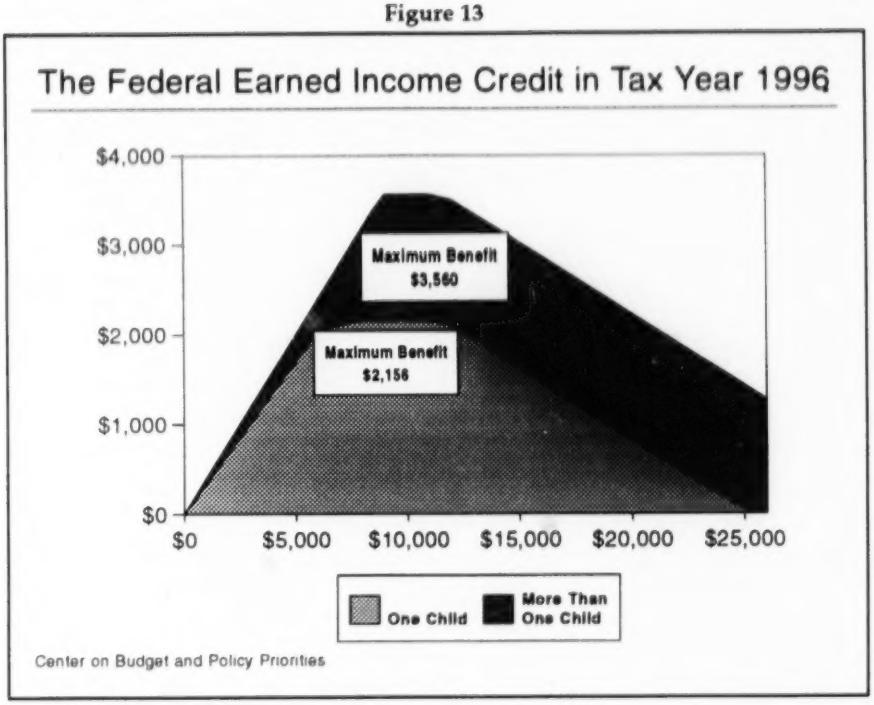
[18] Most ADC recipients face a dollar drop in their grant for every dollar of income earned above $90 each month. Efforts to promote the rewards of work over welfare also must address this disincentive to work within the ADC program.

Figure 13



The credit is more generous for families with two or more children than for families with one child, in recognition that larger families face greater living expenses. The maximum credit for a family with one child in 1996 will be $2,156, or roughly $1,400 less than the maximum credit of $3,560 for a family with two or more children. In addition, workers who are not raising children in their home will qualify for the EIC for the first time in 1994, but the credit for these workers is much smaller than for families. By 1996, the maximum credit will be $324 for workers without qualifying children, and the credit will only be available to workers with incomes below $9,520.

The first state with an earned income credit was Rhode Island. Since 1987, Iowa, Maryland, Minnesota, New York, Vermont, and Wisconsin also have adopted earned income credits. State credits generally receive support across the political spectrum, just as the federal EIC does. In addition to helping bridge the gap between minimum wage earnings and the poverty line, a state EIC can help offset the regressive effects of state sales and excise taxes. These taxes take a larger share of income of lower-income households than of those with higher incomes.

Like six of the seven states that currently have EICs, states can create an EIC by conforming to the federal EIC rules — that is, using the federal eligibility criteria to

Table II
Earned Income Credit Benefit Levels for Families at Different Income Levels, 1996

	Gross Earnings	Federal EIC	25% State EIC	15% State EIC
Families of Four, Two or Three Children				
Half-Time Minimum Wage	$4,420	$1,768	$442	$265
Full-Time Minimum Wage	8,840	3,536	884	530
Poverty Line	16,102	2,616	654	392
150 Percent of Poverty	153	921	230	138
Families of Three With One Child				
Half-Time Minimum Wage	$4,420	$1,503	$376	$226
Full-Time Minimum Wage	8,840	2,156	539	323
Poverty Line	12,565	2,005	501	300
150 Percent of Poverty	18,848	1,001	250	150

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determine who can receive state EIC benefits and expressing the state EIC as a specified percentage of the federal EIC. This method also makes it easy for families to obtain the EIC. To determine its state EIC benefit, a family need only write its federal benefit on its state return and then multiply the federal amount by the state EIC percentage. Similarly, the cost to the state of an EIC is relatively easy to calculate if the state EIC is set as a percentage of the federal credit.[19]

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[19] A rough estimate of the budgetary cost of a refundable state EIC can be calculated as follows: A) Multiply the share of the federal EIC that goes to families in Nebraska (0.50% in tax year 1992) times the estimated cost of the federal EIC nationally in a future year to approximate the total value of the federal EIC in Nebraska in future years. Estimates for the future costs of the federal EIC from the Joint Tax Committee of the U.S. Congress are $22.016 billion in tax year 1995, $24.495 billion in 1996, and $25.762 billion in 1997. B) Multiply the result of step A) by the percentage of the federal credit at which the state EIC is set.

Thus, the cost in 1996 of a state EIC set at 25 percent of the federal credit would equal 0.005 times $24.495 billion times 0.25 = $30.6 million. Based on the experience of other states that have implemented an EIC, it is reasonable to assume that only 80 percent of eligible families will file for the state credit in its first year of implementation. This means that the first-year cost of a 25 percent state EIC in Nebraska would be approximately $24.5 million. For more information, see *A Hand Up: How State Earned Income Credits Help Working Families Escape Poverty*, Center on Budget and Policy Priorities, forthcoming.

To help working poor families, a Nebraska EIC would have to be *refundable*, which means that families who earn too little to owe state income taxes can receive the credit as a refund. Because working poor families in Nebraska currently do not owe state income tax, they would not benefit from a non-refundable EIC. Four of the seven states with a state earned income credit — Vermont, Minnesota, Wisconsin, and New York — made their credits refundable.

Table II shows the value of a state EIC set at 25 percent of the federal credit and 15 percent of the federal credit. This is the range states generally have chosen for their state EICs. For 1994, the credit is set at 25 percent of the federal credit in Vermont, 15 percent in Minnesota, and 7.5 percent in New York. The credit in New York is scheduled to rise gradually to 20 percent of the federal credit in 1997. Wisconsin's EIC no longer conforms to the federal credit, but is equivalent to just under 20 percent of the federal credit for families with two children.

An example may illustrate how a state EIC can work. As the table shows, a family of four with two or three children and one minimum wage worker will qualify for a federal EIC of $3,536 in 1996. If they also qualified for a state EIC set at 25 percent of the federal credit, their state credit would be 25 percent of $3,536, or $884. If the state credit were set at 15 percent of the federal credit, their state credit would be $530.

Minimum Wage

Since an earned income credit may not by itself do the full job of "making work pay," increasing the minimum wage remains an important element of a policy agenda to help the working poor. In addition, raising the minimum wage may lead to wage increases for some workers earning a wage that is only slightly higher than the new minimum wage, since the minimum wage can act as a base for low-wage work. (See box on page 19 for discussion of the prevalence of near-poor working families in Nebraska.) Currently, eight states and the District of Columbia have a minimum wage above the federal requirement of $4.25 an hour. (See Table III.) Five states and the District of Columbia have minimum wage requirements at least 50 cents higher than the federal requirement. In Nebraska, however, the minimum wage remains $4.25 per hour.

Table III
State Minimum Wage Levels Higher Than the Federal Requirement, 1994

State	Minimum Wage
District of Columbia	$5.25
Hawaii	5.25
New Jersey	5.05
Washington	4.90
Alaska	4.75
Oregon	4.75
Iowa	4.65
Rhode Island	4.45
Connecticut	4.27

Source: U.S. Dept. of Labor, 1994

A 25 cent increase in the minimum wage would boost the income of a full-time minimum wage worker by $480 per year, after payroll taxes.[20] If the worker also received food stamps, the increased earnings would lead to a reduction in food stamp benefits that partially offsets the added earnings. For such families, a 25 cent increase in the minimum wage would result in net income growth of about $300 per year.

The principal argument against raising the minimum wage is that it would price many workers out of the job market. Recent research suggests, however, that the effects are likely to be modest. A 1991 study updating research conducted for the federal Minimum Wage Study Commission found that a 10 percent increase in the minimum wage was associated with a decrease of six-tenths of one percent in teenage employment, and there was no strong evidence of job loss for adult workers.[21] Moreover, several studies of the most recent increases in the federal minimum wage found that the increases did not reduce employment, including one study that found no effect on teenage employment.[22]

Recommendation: A Public-Private Partnership to Make Work Pay

The combination of a state EIC and a minimum wage increase would have the greatest effect on boosting the incomes of low-wage working families, while sharing the burden between the public and private sectors. Attempts to help working families escape poverty solely through a state EIC would place a larger burden on the state's budget than if an EIC were combined with a minimum wage increase. Achieving this goal solely through the minimum wage would require a substantial increase in this wage level.

Described below is the effect of a state EIC set at 15 percent of the federal credit and a minimum wage of $4.75 an hour on the incomes of families of three or four with one full-time minimum wage worker, as well as an ADC family with a parent working half-time at the minimum wage. These levels are well within the range of other states with state EICs or with a minimum wage above the federal level. This combination would lift many families out of poverty while bringing many others closer to the

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[20] For someone working 40 hours per week and 52 weeks per year at the minimum wage, a 25 cent increase would yield a *gross* annual wage increase of $0.25 times 2,080, or $520. After payroll taxes of 7.65 percent are deducted, the net gain is $480.

[21] Allicin J. Wellington, "Effect of the Minimum Wage on the Employment Status of Youths: An Update," *The Journal of Human Resources*, Winter 1991.

[22] See, for example, David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial & Labor Relations Review*, October 1992.

poverty line. Some of the examples also show the value of a state EIC or minimum wage that would be needed to lift a family out of poverty if only a state EIC *or* a minimum wage increase were utilized.

A Family of Four with Two Children: A family of four — the average size of working poor families in Nebraska — that has one full-time minimum wage worker and qualifies for and receives food stamps will fall nearly $1,000 below the poverty line in 1996, even with an expanded federal earned income credit. Such a family could be lifted out of poverty by a combination of a state EIC and a minimum wage increase.

- A state EIC set at 15 percent of the federal credit combined with a minimum wage of $4.75 would lift a family of four with one minimum wage worker $150 above the poverty line in 1996, if the family also received food stamps.

- To raise such a family of four above the poverty line through a state EIC alone would require a credit equal to 30 percent of the federal credit. If only the minimum wage were changed, a minimum wage above $5.10 an hour would be required to lift a family of four receiving food stamps out of poverty.

Table IV
Effects of Various "Make Work Pay" Options on a Family of Four
With One Full-Time Minimum Wage Worker, 1996

		CHANGES IN INCOME FROM:		
	Current Policy	**15% State EIC and $4.75 Minimum Wage**	**30% State EIC**	**$5.10 Minimum Wage**
Earnings less payroll tax	$8,164	$960	0	$1,632
EIC	3,536	558	1,061	24
Food Stamps	3,408	-372	0	-636
Change in Income		1,146	1,061	1,020
TOTAL INCOME	$15,108	$16,254	$16,169	$16,128
Poverty Line	16,102	16,102	16,102	16,102
Amount Above/Below Poverty	-994	152	67	26

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A family of four with one full-time minimum wage worker that does not receive food stamps will fall more than $4,400 below the poverty line in 1996. While it is unlikely that any state actions could lift such a family above the poverty line, the combination of a state EIC and a minimum wage increase would bring such families

closer to the poverty line. Furthermore, some such families with earnings modestly above the minimum wage would be lifted from poverty by these changes.

- A minimum wage of $4.75 per hour combined with a state EIC set at 15 percent of the federal credit would provide an additional $1,518 to a family of four with one full-time minimum wage worker that does not receive food stamps. This would eliminate more than one-third of the $4,400 by which such a family would fall below the poverty line without any state action.

A Family of Three with Two Children: A family of three consisting of a single parent working full-time and two children will fall $865 below the poverty line in 1996, if the family does not receive food stamps.[23]

- A combined minimum wage of $4.75 and a state EIC set at 15 percent of the federal credit — the same combination that would lift a family of four getting food stamps above the poverty line — would place a full-time working single parent with two children five percent — or $650 — above the poverty line in 1996.

Table V
Effects of Various "Make Work Pay" Options on a Family of Three with Two Children With One Full-Time Minimum Wage Worker, 1996

		CHANGES IN INCOME FROM:		
	Current Policy	**15% State EIC and $4.75 Minimum Wage**	**25% State EIC**	**$4.75 Minimum Wage**
Earnings less payroll tax	$8,164	$960	0	$960
EIC	3,536	558	1,061	24
Change in Income		1,518	1,061	988
TOTAL INCOME	$11,700	$13,218	$12,761	$12,688
Poverty Line	12,565	12,565	12,565	12,565
Amount Above/Below Poverty	-865	653	196	123

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[23] A three-person family with a full-time minimum wage worker that receives food stamps would have above-poverty income in 1996, when the federal EIC expansions will be fully phased in, without any changes in state policies.

- This family also would be lifted just out of poverty by either a state EIC equal to 25 percent of the federal EIC or a minimum wage of $4.75 per hour.

A Family of Three with One Child: A family of three consisting of a married couple and one child, which would receive a smaller EIC than a family with two or more children, will fall more than $2,200 below the poverty line in 1996. The combination of a state EIC set at 15 percent of the federal credit and a minimum wage of $4.75 an hour would bring this family closer to, but not above, the poverty line.

- The income of a family of three with one child and one minimum wage worker would be boosted nearly $1,300 by the combination of a 15 percent state EIC and a minimum wage of $4.75 an hour. That would erase more than half of the amount by which such a family would otherwise fall below the poverty line.

An ADC Family of Three: The combination of a state EIC and a minimum wage increase would provide significantly less assistance to families working their way off welfare, particularly during the period when welfare is combined with part-time work, than for other families. This is because nearly all of the added earnings such families would receive from a minimum wage increase would be offset by a dollar-for-dollar reduction in ADC benefits.

Table VI

Effects of "Make Work Pay" Option on ADC Family of Three
With a Parent Working Half-Time at the Minimum Wage, 1996

	Current Policy	CHANGES IN INCOME FROM 15% State EIC and $4.75 Minimum Wage
Earnings less payroll tax	$4,082	$480
ADC	1,028	-520
Food Stamps	3,516	48
EIC	1,768	504
Change in Income		512
TOTAL INCOME	$10,394	$10,906
Poverty Line	12,565	12,565
Amount Above/Below Poverty	-2,171	-1,659

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- An ADC family of three with a parent working half-time at the minimum wage will fall nearly $2,200 below the poverty line in 1996. (See Table VI.) The income of such a family would rise just $512 through the creation of a state EIC set at 15 percent of the federal credit and a minimum wage increase to $4.75 an hour. This would erase less than one-fourth of the amount by which such a family falls below the poverty line.

This suggests that successful welfare-to work efforts must also reform the way ADC benefits are reduced as the earnings of recipients rise, in order to provide a greater incentive for ADC parents to seek work. That is the subject of a forthcoming analysis from the Center on Budget and Policy Priorities and Voices for Children in Nebraska.

VI. Conclusion

The effort to reform welfare in Nebraska through helping low-income families become economically self-sufficient presents an opportunity to examine the broader issue of poverty among children in Nebraska. This analysis has identified and focused on low earnings as a major and growing cause of poverty among Nebraska's families with children, because 82 percent of poor Nebraska families with children were supported at least in part by one or more workers. In order to increase the rewards of work over welfare and to reduce child poverty in Nebraska, it is necessary to consider avenues to increase the incomes of parents working for low wages.

In the long-run, incomes may be increased by improving educational levels and fostering the development of high-wage industries. But low-wage work is unlikely to disappear entirely, now or in the foreseeable future, so other strategies to increase the incomes of low-wage workers take on critical importance.

This report analyzes two strategies — in use in other states — that can boost the incomes of low-wage workers. Nebraska could establish a state earned income credit based on the federal credit, and it could increase the state minimum wage above the federal requirement. Together, these actions would establish a public-private partnership to make work pay enough to lift out of poverty a substantial number of Nebraska's working families with children.